

**REPORT OF THE AUDIT OF THE
ESTILL COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
May 2, 2006 Through June 1, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
ESTILL COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
May 2, 2006 Through June 1, 2007

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for the Estill County Sheriff for the period May 2, 2006 through June 1, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$3,339,881 for the districts for 2006 taxes, retaining commissions of \$133,968 to operate the Sheriff's office. The Sheriff distributed taxes of \$3,203,052 to the districts for 2006 Taxes. Taxes of \$445 are due to the districts from the Sheriff and refunds of \$3,717 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Has Not Settled His 2004 Tax Account
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Wallace Taylor, Estill County Judge/Executive
Honorable Gary Freeman, Estill County Sheriff
Members of the Estill County Fiscal Court

Independent Auditor's Report

We have audited the Estill County Sheriff's Settlement - 2006 Taxes for the period May 2, 2006 through June 1, 2007. This tax settlement is the responsibility of the Estill County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Estill County Sheriff's taxes charged, credited, and paid for the period May 2, 2006 through June 1, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 4, 2007 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Wallace Taylor, Estill County Judge/Executive
Honorable Gary Freeman, Estill County Sheriff
Members of the Estill County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Has Not Settled His 2004 Tax Account
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

December 4, 2007

ESTILL COUNTY
GARY FREEMAN, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period May 2, 2006 Through June 1, 2007

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 252,408	\$ 947,769	\$ 1,373,220	\$ 384,622
Tangible Personal Property	10,697	46,334	47,271	28,332
Fire Protection	1,602			
Increases Through Exonerations	150	649	815	255
Franchise Taxes	81,500	306,882	366,600	
Oil and Gas Property Taxes	169	633	922	258
Limestone, Sand and Mineral Reserves	52	196	285	80
Penalties	2,675	10,017	14,441	4,076
Adjusted to Sheriff's Receipt	945	559	802	225
Gross Chargeable to Sheriff	<u>350,198</u>	<u>1,313,039</u>	<u>1,804,356</u>	<u>417,848</u>
<u>Credits</u>				
Exonerations	3,189	11,933	17,336	4,852
Discounts	3,691	13,854	19,645	5,661
Delinquents:				
Real Estate	12,016	44,860	65,141	18,245
Tangible Personal Property	70	305	311	81
Franchise Taxes	33,462	127,916	162,992	
Total Credits	<u>52,428</u>	<u>198,868</u>	<u>265,425</u>	<u>28,839</u>
Taxes Collected	297,770	1,114,171	1,538,931	389,009
Less: Commissions *	<u>12,943</u>	<u>46,495</u>	<u>57,710</u>	<u>16,820</u>
Taxes Due	284,827	1,067,676	1,481,221	372,189
Taxes Paid	287,544	1,065,782	1,478,344	371,382
Refunds (Current and Prior Year)	<u>529</u>	<u>1,950</u>	<u>2,850</u>	<u>804</u>
Due Districts and (Refunds Due Sheriff) as of Completion of Audit	<u>\$ (3,246)</u>	<u>\$ (56)</u>	<u>\$ 27</u>	<u>\$ 3</u>

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

ESTILL COUNTY
 GARY FREEMAN, SHERIFF
 SHERIFF'S SETTLEMENT - 2006 TAXES
 For The Period May 2, 2006 Through June 1, 2007
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,447,861
4% on	\$	343,089
3.75% on	\$	1,538,931

** Special Taxing Districts:

Library District	\$	5
Health District		330
Extension District		2
Soil Conservation District		(148)
Ambulance District		(323)
Watershed District		<u>78</u>

Due Districts and (Refunds Due Sheriff)		<u><u>(56)</u></u>
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ESTILL COUNTY
NOTES TO FINANCIAL STATEMENT

June 1, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

(UC) COUNTY
NOTES TO FINANCIAL STATEMENT
(ENDD)
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 1, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 18, 2007 through June 1, 2007.

Note 4. Interest Income

The Estill County Sheriff earned \$472 as interest income on 2006 taxes. As of December 4, 2007, the Sheriff owed \$74 in interest to the school district and \$263 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Estill County Sheriff collected \$24,828 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Estill County Sheriff collected \$2,889 of advertising costs and \$2,225 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Wallace Taylor, Estill County Judge/Executive
Honorable Gary Freeman, Estill County Sheriff
Members of the Estill County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Estill County Sheriff's Settlement - 2006 Taxes for the period May 2, 2006 through June 1, 2007, and have issued our report thereon dated December 4, 2007. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Estill County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Estill County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Estill County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Estill County Sheriff's Settlement – 2006 Taxes for the period May 2, 2006 through June 1, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Has Not Settled His 2004 Tax Account

This report is intended solely for the information and use of management, the Estill County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

December 4, 2007

COMMENTS AND RECOMMENDATIONS

ESTILL COUNTY
GARY FREEMAN, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period May 2, 2006 Through June 1, 2007

STATE LAWS AND REGULATIONS:

The Sheriff Has Not Settled His 2004 Tax Account

The Sheriff's Settlement – 2004 Taxes noted that the Sheriff should have collected \$327 from the Health District and owed the Ambulance District \$327. We recommend the Sheriff promptly settle the 2004 account.

Sheriff's Response: No comment.

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties because the Sheriff's bookkeeper maintains the ledgers, deposits the collections, collects funds from customers and prepares checks. We recommend the Sheriff either segregate these duties or implement steps to strengthen internal controls, such as:

- The Sheriff should have an independent person periodically compare the daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger.
- The Sheriff should have an independent person compare the monthly financial report to receipts and disbursements ledgers for accuracy.
- The Sheriff should have an independent person periodically compare payments to the taxing districts.
- The Sheriff personally mail or deliver tax payments to districts.
- The Sheriff should have an independent person periodically compare the monthly bank reconciliation to the balance in the checkbook.

Sheriff's Response: No comment.

